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Milk Distributors'

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Sales and Costs
APRIL-JUNE 1964

U.S. DEPARTMENT OF AGRICULTURE
Economic Research Service

MDSC No. 25

MILK DISTRIBUTORS' SALES AND COSTS

April-June 1964

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This report is one of a series based upon information from 70 fluid milk distributors. These distributors are chiefly single-plant firms and are privately owned. The firms in the sample are considered to be typical of this group of distributors. Very small firms, very large firms, national chains, and producer-distributors are not included. The 70 distributors subscribe to a cost-comparison service which furnishes the data for USDA analysis. A uniform accounting system is used and information is supplied on standardized forms.

Sales

Net sales receipts per 100 pounds of milk and cream processed by fluid distributors increased by about 1 percent from \$10.70 in January-March 1964 to \$10.82 in April-June 1964 (table 1). The \$10.82 level was close to that of the last quarter of 1963, but 11 cents below the estimate for the year 1963.

Costs

Costs of raw milk and cream totaled \$4.57 per 100 pounds in April-June 1964, down 32 cents from the preceding quarter, but down only 11 cents from the second quarter of 1962. This cost decline resulted from seasonal declines in prices paid for raw milk which amounted to 6.5 percent between the first and second quarters of 1964. Average decline was 6.6 percent between these quarters during 1956-1962 period.

Other materials costs increased from \$0.99 to \$1.14, primarily because of increased volume of ice cream manufactured.

Total operating costs for the second quarter of 1964 amounted to \$4.78 per 100 pounds, up 15 cents or 3.2 percent from the preceding quarter's level of \$4.63, the lowest point in recent years. Many of the cost items were higher, but salaries, wages, and commissions--which combined rose from \$2.40 to \$2.47--accounted for about half of the increase.

Net Margins

Net margins increased to 33 cents per 100 pounds of milk and cream--14 cents above the first quarter of 1964 and more than twice the 15 cents margin in the last quarter of 1963.

Wage Rates, Productivity and Labor Costs, 1956-64

Wage rates increased in all departments of fluid milk plants, ranging from a fourth to a half higher between 1956 and 1964 (table 2). Wages of plant workers increased by 48.6 percent while those of deliverymen and office workers rose about a third (34.0 and 34.5 percent). Increasing wage rates for plant workers were largely offset by improvements in productivity.

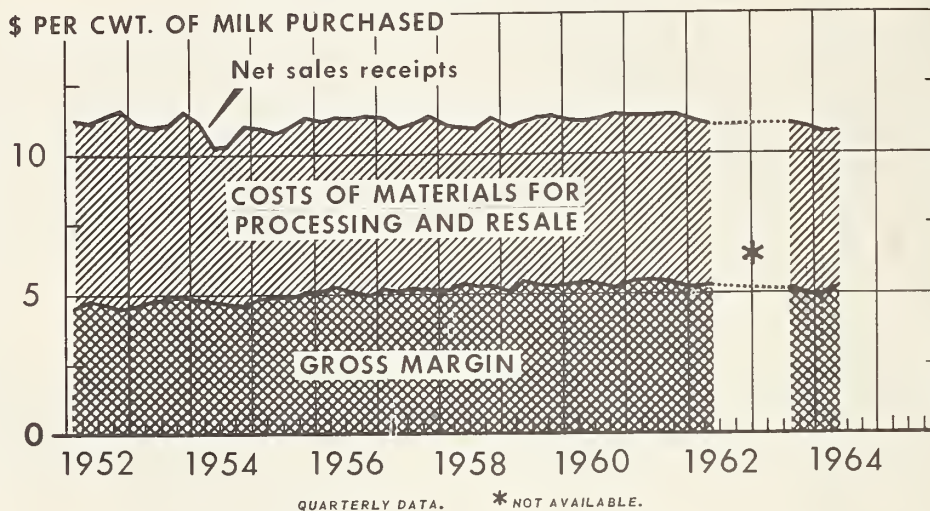
Table 1.--Costs and margins for selected dairy firms, per 100 pounds of milk and cream processed, for years 1952-63 and for 6 recent quarters

Account	Yearly average													
	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962 4/	1963 4/	1963	1964
Net sales receipts 1/	Dol. 11.32	Dol. 11.12	Dol. 10.69	Dol. 10.95	Dol. 11.22	Dol. 11.15	Dol. 11.05	Dol. 11.16	Dol. 11.25	Dol. 11.37	Dol. 11.17	Dol. 10.93	Dol. 11.06	Dol. 10.88
Net sales receipts 1/	11.32	11.12	10.69	10.95	11.22	11.15	11.05	11.16	11.25	11.37	11.17	10.93	11.06	10.88
Cost of materials for:														
processing and resale:														
Raw milk and cream:	5.85	5.43	5.07	5.12	5.39	5.23	5.13	5.10	5.11	5.02	4.98	5.01	4.95	5.08
Raw milk and cream:	5.85	5.43	5.07	5.12	5.39	5.23	5.13	5.10	5.11	5.02	4.98	5.01	4.95	5.08
Other.....	.82	.86	.83	.89	.76	.77	.70	.80	.87	.95	.97	.96	1.02	.93
Other.....	.82	.86	.83	.89	.76	.77	.70	.80	.87	.95	.97	.96	1.02	.93
Total.....	6.67	6.29	5.90	6.01	6.15	6.00	5.83	5.90	5.98	5.97	5.95	5.97	5.97	6.01
Total.....	6.67	6.29	5.90	6.01	6.15	6.00	5.83	5.90	5.98	5.97	5.95	5.97	5.97	6.01
Gross margins.....	4.65	4.83	4.79	4.94	5.07	5.15	5.22	5.26	5.27	5.40	5.22	4.96	5.09	4.82
Gross margins.....	4.65	4.83	4.79	4.94	5.07	5.15	5.22	5.26	5.27	5.40	5.22	4.96	5.09	4.82
Operating costs:														
Salaries, wages, and commissions 2/	2.15	2.19	2.21	2.28	2.43	2.50	2.56	2.61	2.62	2.67	2.55	2.43	2.49	2.36
Salaries, wages, and commissions 2/	2.15	2.19	2.21	2.28	2.43	2.50	2.56	2.61	2.62	2.67	2.55	2.43	2.49	2.36
Containers.....	.60	.62	.65	.70	.72	.71	.70	.69	.66	.67	.72	.73	.73	.70
Containers.....	.60	.62	.65	.70	.72	.71	.70	.69	.66	.67	.72	.73	.73	.70
Operating supplies:	.30	.32	.35	.32	.28	.29	.29	.29	.30	.30	.30	.29	.29	.28
Operating supplies:	.30	.32	.35	.32	.28	.29	.29	.29	.30	.30	.30	.29	.29	.28
Repairs, rent, and depreciation.....	.50	.52	.57	.60	.64	.67	.68	.67	.66	.68	.69	.73	.70	.68
Repairs, rent, and depreciation.....	.50	.52	.57	.60	.64	.67	.68	.67	.66	.68	.69	.73	.70	.68
Taxes.....	.06	.06	.06	.06	.05	.06	.06	.06	.06	.06	.07	.07	.06	.07
Taxes.....	.06	.06	.06	.06	.05	.06	.06	.06	.06	.06	.07	.07	.06	.07
Insurance.....	.02	.02	.03	.04	.04	.04	.04	.04	.05	.05	.05	.06	.05	.05
Insurance.....	.02	.02	.03	.04	.04	.04	.04	.04	.05	.05	.05	.06	.05	.05
Services.....	.16	.19	.19	.18	.17	.17	.17	.17	.18	.19	.18	.19	.20	.18
Services.....	.16	.19	.19	.18	.17	.17	.17	.17	.18	.19	.18	.19	.20	.18
Advertising.....	.15	.15	.16	.18	.19	.18	.18	.18	.18	.19	.17	.19	.18	.17
Advertising.....	.15	.15	.16	.18	.19	.18	.18	.18	.18	.19	.17	.19	.18	.17
General.....	.15	.13	.13	.14	.16	.15	.16	.16	.15	.16	.15	.14	.15	.14
General.....	.15	.13	.13	.14	.16	.15	.16	.16	.15	.16	.15	.14	.15	.14
Total.....	4.09	4.20	4.35	4.50	4.68	4.77	4.84	4.87	4.86	4.97	4.94	4.76	4.86	4.72
Total.....	4.09	4.20	4.35	4.50	4.68	4.77	4.84	4.87	4.86	4.97	4.94	4.76	4.86	4.72
Net margins 3/.....	.56	.63	.44	.44	.39	.38	.38	.39	.41	.43	.28	.20	.34	.15
Net margins 3/.....	.56	.63	.44	.44	.39	.38	.38	.39	.41	.43	.28	.20	.34	.15
Firms reporting.....	43	51	75	83	80	80	80	80	80	80	80	70	70	70
Firms reporting.....	43	51	75	83	80	80	80	80	80	80	80	70	70	70

^{1/} Gross sales receipts less discounts, allowances, and returns.^{2/} Includes State unemployment, Federal old age, workmen's compensation, and employee benefits.^{3/} Net returns to owners before income taxes.^{4/} Estimated on the basis of available quarterly data, seasonally adjusted.

Fluid Milk Processing-Distributing Firms

NET SALES, COST OF MATERIALS, AND GROSS MARGIN



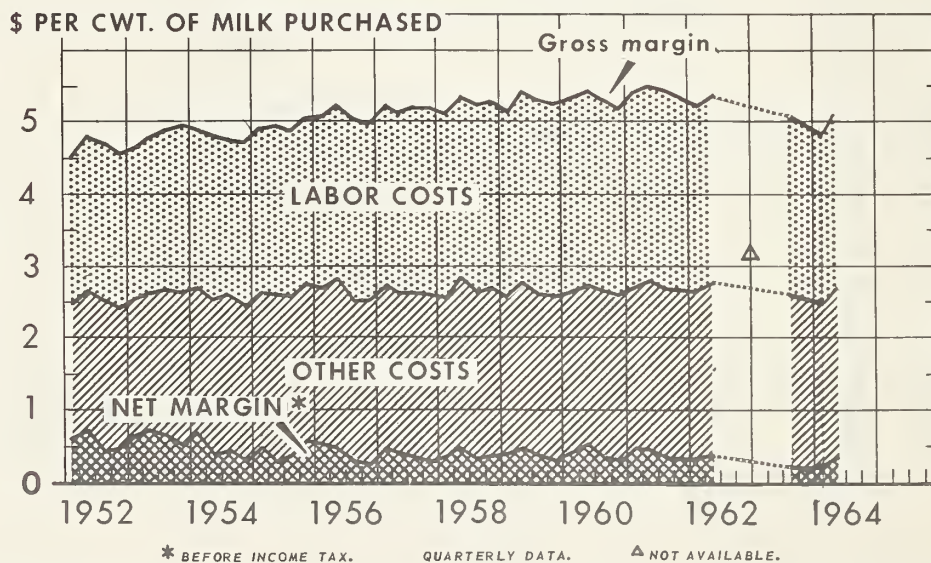
U. S. DEPARTMENT OF AGRICULTURE

NEG. ERS 37-65(1) ECONOMIC RESEARCH SERVICE

Figure 1

Fluid Milk Processing-Distributing Firms

OPERATING COSTS



U. S. DEPARTMENT OF AGRICULTURE

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Figure 2

Table 2.--Average wages per hour, first quarter, 1956-1964

Year	Field	Plant	Delivery	Administrative	
				Office	Executives
	<u>Dol.</u>	<u>Dol.</u>	<u>Dol.</u>	<u>Dol.</u>	<u>Dol.</u>
1956.....	1.70	1.46	1.94	1.48	5.31
1957.....	1.89	1.89	2.26	1.63	5.90
1958.....	1.99	1.81	2.28	1.70	6.38
1959.....	1.99	1.83	2.39	1.74	5.94
1960.....	2.02	1.99	2.55	1.87	5.93
1964.....	2.36	2.17	2.60	1.99	6.75
	<u>Pct.</u>	<u>Pct.</u>	<u>Pct.</u>	<u>Pct.</u>	<u>Pct.</u>
Change, 1956 to					
1964.....	+38.8	+48.6	+34.0	+34.5	+27.1

Does not include fringe benefits.

The number of minutes of labor required to process 100 pounds of fluid milk and cream declined from 21.7 minutes in the first quarter of 1956 to 15 minutes in January-March 1964, a reduction of 31 percent (table 3). Comparable reductions were not made in labor requirements for delivery, which accounts for over half of the labor used. The only reduction occurred between 1956 and 1957. Since then, time spent on this function has been about stable. This reflects the lack of labor-saving equipment available for delivery operations. The reductions in labor requirements for fieldmen probably reflect mostly the shifting of the procurement function from processors to cooperatives.

In total, labor costs rose about 14 percent between 1956 and 1964. However, marked differences showed up between departments. Unit costs of delivery rose the most and accounted for almost all of the increase in costs (table 4). Labor costs for plant and office work increased a little less than 3 percent while those for fieldmen and executives declined (17.8 and 9.2 percent).

Table 3.--Man-minutes of labor per hundredweight of fluid milk and cream processed, first quarter, 1956-1964

Year	Field	Plant	Delivery	Administrative		Total
				Office	Executives	
	<u>Min.</u>	<u>Min.</u>	<u>Min.</u>	<u>Min.</u>	<u>Min.</u>	<u>Min.</u>
1956.....	1.9	21.7	37.2	6.5	1.7	69.0
1957.....	1.5	19.5	34.5	6.2	1.6	63.3
1958.....	1.3	16.7	35.5	6.4	1.4	61.3
1959.....	1.2	18.3	34.7	6.0	1.4	61.6
1960.....	1.2	14.6	33.8	5.9	1.4	56.9
1964.....	1.1	15.0	34.6	5.0	1.2	56.8
	<u>Pct.</u>	<u>Pct.</u>	<u>Pct.</u>	<u>Pct.</u>	<u>Pct.</u>	<u>Pct.</u>
Change, 1956						
to 1964.....	-42.1	-30.9	-7.0	-23.1	-29.4	-17.7

Table 4.--Labor cost per hundredweight of milk and cream processed, first quarter, 1956-1964

Year	Field	Plant	Delivery	Administrative		Total
				Office	Executives	
		Cents	Cents	Cents	Cents	Cents
1956.....	5.27	52.85	120.28	16.13	14.87	209.37
1957.....	4.72	53.30	130.00	16.79	15.34	220.15
1958.....	4.18	50.50	134.98	18.02	15.31	222.99
1959.....	3.98	55.82	138.38	17.40	13.66	229.24
1960.....	4.04	48.56	143.82	18.51	13.64	228.57
1964.....	4.33	54.25	149.93	16.58	13.50	238.59
		Pct.	Pct.	Pct.	Pct.	Pct.
Change, 1956						
to 1964.....	-17.8	+2.6	+24.6	+2.8	-9.2	+13.9

Does not include fringe benefits.

RECENT DAIRY MARKETING PUBLICATIONS

Coordinating Fluid Milk Supplies in the Oklahoma Metropolitan Milk Market. Floyd A. Lasley, Mktg. Res. Rpt. No. 686, U.S. Dept. Agr., Mktg. Econ. Div., Econ. Res. Serv., Nov. 1964.

How does supply management influence the reserve needed? Milk handlers carry a reserve supply to meet seasonal, weekly, and daily fluctuations in both supply and demand. A central firm can manage the supply for several plants more economically and with smaller reserves than can the individual plants. These savings result from reduced uncertainty, greater flexibility, and economies of scale.

Flexibility of Operation in Dairy Manufacturing Plants, Changes 1944-1961, D. H. Carley and T. L. Cryer, Econ. Res. Serv. and Statis. Rptg. Serv., U.S. Dept. Agr., Agr. Econ. Rpt. No. 61, October 1964, 44 pp.

Intraplant diversification in 6,134 plants manufacturing dairy products in 1961 was compared with the diversification in 9,739 plants in 1944. The volume of milk products manufactured within the different degrees of diversity was analyzed. One product was manufactured in 44 percent of the plants in 1961 compared with 72 percent in 1944. In 1961, 38 percent of the plants were partially diversified compared with 10 percent in 1944, and 8 percent were fully diversified in 1961 compared with 1 percent in 1944. Increasing diversification indicates that there is more flexibility in the dairy manufacturing industry.

Producer Delivery Patterns in New England Milk Markets. Sargent Russell, Mktg. Res. Rpt. No. 672, U.S. Dept. Agr., Agr. Mktg. Serv., Econ. Res. Serv. and Vermont and Maine Exp. Sta., Cooperating. July 1964.

Study of milk deliveries by 3,547 farmers for 3 years; farmers leaving the market; year-to-year changes in production and in seasonal patterns.

Optimum Assembly of Milk Supplies in the Southeast. Dale H. Carley, South. Coop. Series Bul. No. 92, March 1964 (Bulletin available from North Carolina Agricultural Experiment Station, Raleigh, N. C.)

Report analyzes an important problem in the marketing of milk--how to minimize the cost assembly of the raw product in the Southeast. The least-cost pattern for the movement of supplies was compared with the existing pattern for major markets.

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